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ABSTRACT

The passage of California's Proposition 13 is the best known incident in the process that can be labeled "fiscal containment." This process, resulting from a shift in the mood and the demands of the entire nation's electorate, involves a moderation of rapid growth in government and means a less prominent role for government in the economy and the society. The principal means for achieving fiscal containment are the election of fiscally conservative government officials and the revision of traditional taxing patterns, especially at the ballot box. Since property taxes are the most common target of voters, tax reductions usually benefit the property-owning class. Reductions in government services and layoffs of government workers follow, and tend to hurt the less well-off, less organized members of society. Attempts to recoup revenue losses through such means as user fees tend to be regressive while the property taxes had been progressive. Some major effects of fiscal containment are to limit government's role in the redistribution of wealth and to slow the movement toward social equity for minorities. (Author/PGD)

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THE EQUITY EFFECTS OF RESTRAINTS ON TAXING AND SPENDING

Mark David Menchik and Anthony H. Pascal

May 1980

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THE EQUITY EFFECTS OF RESTRAINTS ON TAXING AND SPENDING[1]

Mark David Menchik and Anthony H. Pascal

This paper derives from Rand research that was stimulated by California's passage of Proposition 13. We learned two lessons early in our research. First, Prop. 13 was a manifestation of a process that extends far beyond a single law in a single state. We call this process "fiscal containment"--a moderation of rapid growth in government that means a less prominent role for government in the economy and society. Most Americans seem to favor containment of government and, more and more, are electing officials who promise to act accordingly. The second lesson is that fiscal containment may have equity effects--consequences that especially benefit some population groups and especially hurt others. Figure 1 traces the onset of fiscal moderation. At each level of government (federal, state, and local) the rate of growth in spending has fallen to about half what it was previously, with a sharp change during the 1970s.

Containment has several well-known positive consequences, of course: It puts money in the taxpayers' pockets; it seems to stimulate local economies; it may promote the efficiency and responsiveness of government. This paper, however, will concentrate on some of the possible adverse effects, many of them unexpected even by opponents of the fiscal containment movement. Those effects can emerge from changes in who shoulders the burden of government finance. changes in who benefits from public programs, changes in the kinds of people who hold civil service jobs, and changes in the distribution of power among levels of government. Putatively "nonpolitical" actions to increase efficiency or restore program funds also may affect equity. Fiscal containment, as we will argue, can set some complex long-run shifts in motion.

To understand fiscal containment, we must first pose some questions. What has happened in government finance over the past fifty years?

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Why are the voters unhappy with government? What have they done about it? And how important, in this context, are formal fiscal controls such as Prop. 13?

THE FACTS OF FISCAL CONTAINMENT

Looking at the last half-century, Fig. 2 portrays the three levels of government and their shares of the gross national product (GNP). In 1929, the three levels accounted for less than 10 percent of GNP. By 1975, they accounted for more than one-third. Localities (cities, counties, school districts and the like) once dominated that picture, but after the New Deal and World War II the federal government rose to preeminence.[2] An overall turndown began about 1975. The federal share started to decline, as did the local share at a somewhat faster rate; the state share remained roughly the same.

Figure 3 shows how government spending and government employment grew in close parallel, since about 60 percent of government outlays--at least at the state and local levels--go to wages and salaries (*Survey of Current Business*, February 1980, pp. 7, 18). During the postwar period, total government employment grew 160 percent, while the general labor force grew only 95 percent (U.S. Bureau of the Census, *Statistical Abstract*, 1975, 1978). The government's share of the labor force, then, increased from less than 14 percent to almost 20 percent in the thirty years up to 1975. Around 1970, however, the number of federal civilian workers actually began to decline. City and other municipal labor forces have about peaked out. Some growth has continued in the number of state and other local workers (the latter predominantly in school districts). Government jobs have been the fastest growing sector of the economy. Those days seem to be over.

How do subnational governments raise their revenues? The rest of this paper will concentrate on state and local government, although we present some additional facts about events at the federal level.

State Revenues

Figure 4 shows the sources of state revenues. Obviously, the role of the individual income tax in state finance has grown appreciably.

AN ERA OF FISCAL CONTAINMENT IS UPON US

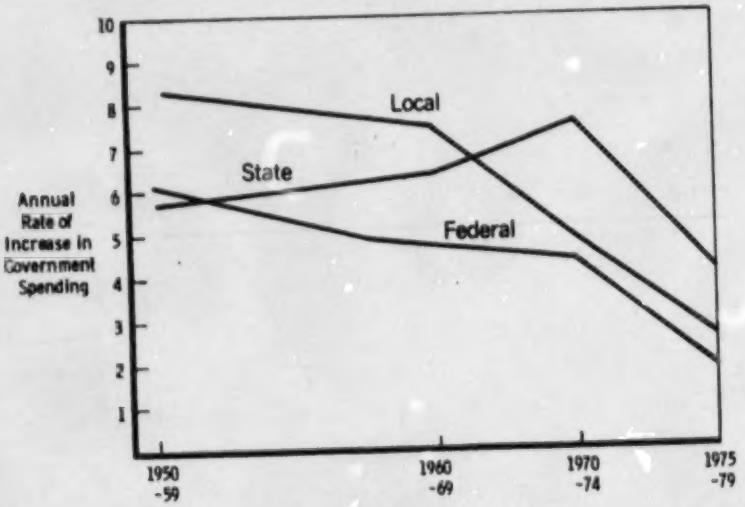

Fig. 1 — Spending after intergovernmental transfers, adjusted for inflation; 1979 figures estimated in source. From Advisory Commission on Intergovernmental Relations (ACIR), *Significant Features of Fiscal Federalism*, 1978-79 ed., 1979

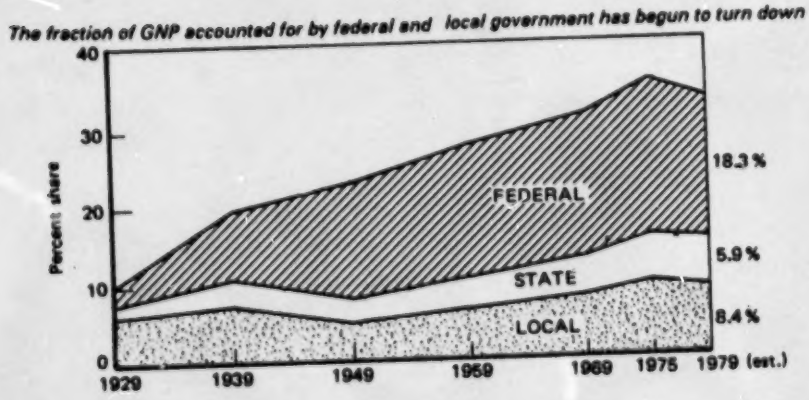

Fig. 2 -- From ACIR, *Significant Features of Fiscal Federalism*, 1978-79 ed., 1979

So has the role of grants from the federal government--up from 20 percent to almost a third of revenues. General sales taxes remain important but have not risen dramatically. Other taxes and fees shown in Fig. 4 consist largely of corporate income, alcohol, gasoline, and tobacco taxes.

Local Revenues

Figure 5 again demonstrates the increasing importance of grants. Direct federal grants to cities, counties, and school districts were virtually nil in 1954, but now account for 11 percent of local revenues. When growth in state grants is added, local government is now about half supported by transfers from higher levels. Figure 5 shows that while the property tax has decreased in its proportional importance as a source of local revenue, it remains very important: It contributes 40 percent of all local revenues and more than 80 percent of funds raised from localities' own sources.[3]

Figures 4 and 5 deliver two messages. One is that some of the least popular (and most visible) taxes have either grown in significance or remain very prominent (ACIR, 1977a, p. 11). These are state personal income taxes and local property taxes, as opposed to general sales and "sin" taxes (those on alcohol and tobacco). The other message is that the traditional layer cake of American government has become more like a marble cake, as grants swirl down from the federal level to states and localities, and from states directly to cities, counties, and school districts.

ROOTS OF TAXPAYER DISCONTENT

The impulse for containment seems to have erupted about 1975. Why did it occur? First, we have seen a sharp rise in the burden of taxation--the fraction of income extracted from taxpayers' pocketbooks. Consequently, during the 1970s, the fraction of Americans who felt that taxes had reached the breaking point rose from about a half to about two-thirds. This is an unprecedented shift in public opinion (see, e.g., Citrin, 1978). Second, the recipients of government spending have changed over time. Third, many citizens believe that government workers are overpaid (ibid.). Finally, runaway inflation is all

THE POST WAR GROWTH IN GOVERNMENT EMPLOYMENT IS MODERATING AT ALL LEVELS BUT THE STATE

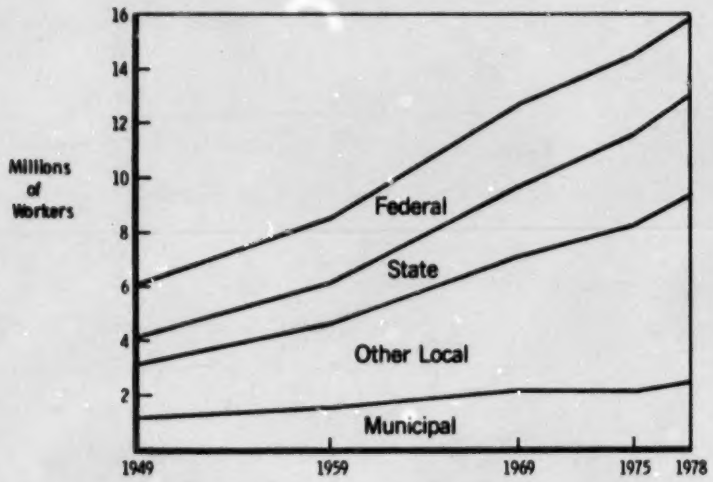

Fig. 3 — From U.S. Bureau of the Census, *Statistical Abstract*, annual

IN STATE GOVERNMENT FINANCE, INDIVIDUAL INCOME TAXES AND FEDERAL GRANTS HAVE BECOME INCREASINGLY IMPORTANT

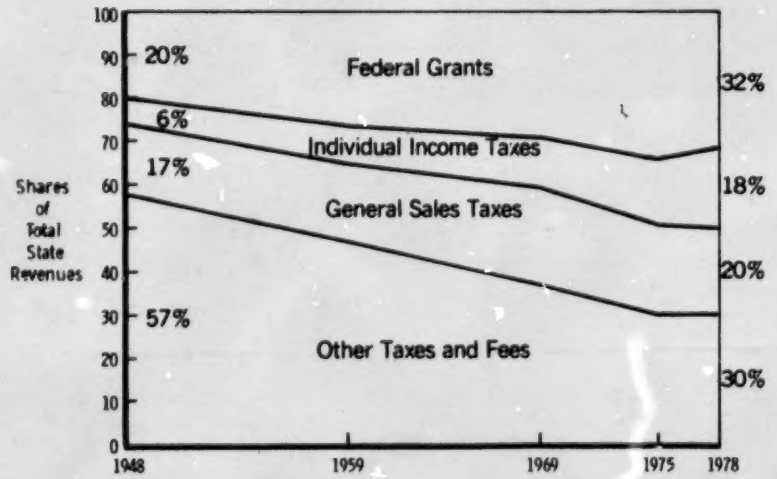

Fig. 4 — From ACIR, *Significant Features of Fiscal Federalism*, 1978-79 ed., 1979

the more painful when real incomes are scarcely growing. Angry citizens cannot directly vote down the price of gasoline--but they can cut the price of government. Not only can they elect tightfisted officials, but they can also vote in measures like Prop. 13 and vote against bond issues.

State and Local Tax Burdens

Figure 6 portrays several states' tax burdens (state and local taxes combined) as shares of personal income. Alabama and New York are shown because they bound the range. New York is currently the highest taxing of the continental states and Alabama the lowest, but taxes have grown in both. The central line reflects the average of all states. State and local taxes used to absorb about 7 percent of personal income but the average burden has grown to about 13 percent and has risen to almost 18 percent in New York. California, Kansas, and New Jersey appear because they are the subject of ongoing research at Rand. California tax burdens grew sharply just before the passage of Prop. 13.

After 1965, state trends appear to diverge. Kansas instituted a fiscal limit in 1970, which might account for the downturn there.

The Objects of State and Local Expenditure

Not only are taxes higher but citizens increasingly disapprove of how government money is spent (Fig. 7). In polls, the fraction of Americans who believe the government wastes a great deal of the tax money it collects rose from 56 percent to 74 percent between the 1960s and the 1970s (Citrin, 1978). The redistributive programs attract the most charges of waste and fraud. Perceiving waste in government, angry taxpayers conclude that taxes can be cut without endangering "basic" or "essential" services, generally considered to consist of police, fire, sanitation, street and highway repair, and basic education--in that order of priority. (See Ladd et al., 1979, p. 131ff.) One poll found that two-thirds of the respondents who wanted taxes cut were willing to forgo tax relief if governmental waste and inefficiency were eliminated (*Washington Post*, 1978).

PROPERTY TAXES REMAIN PROMINENT WHILE GRANTS FROM HIGHER LEVELS MATTER MORE AND MORE AS LOCAL GOVERNMENT REVENUE SOURCES

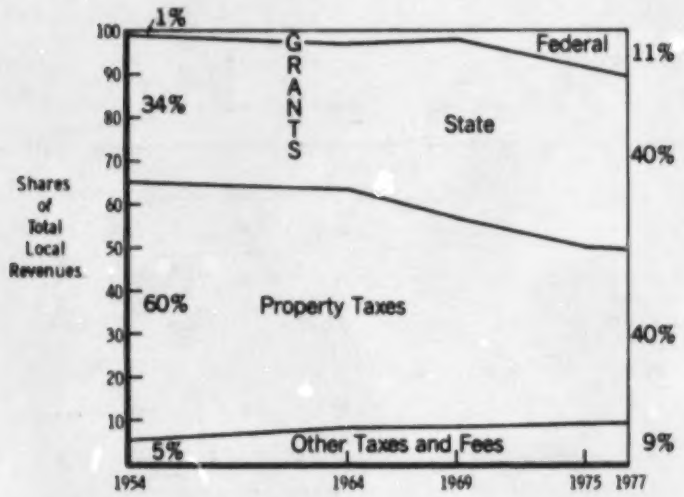

Fig. 5 — From ACIR, *Significant Features of Fiscal Federalism*, 1978-79 ed., 1979

STATE AND LOCAL TAXES ABSORB AN INCREASING SHARE OF PERSONAL INCOME

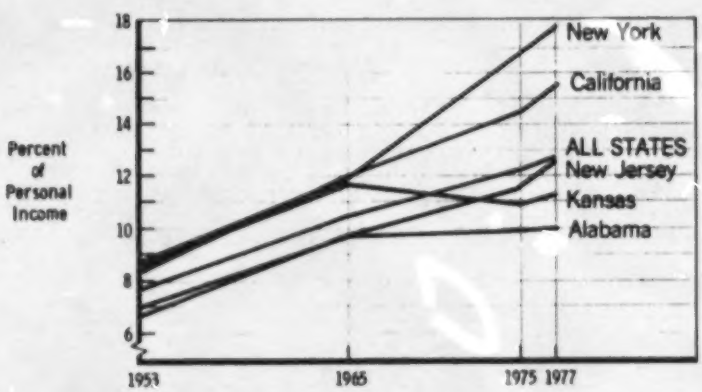

Fig. 6 — From ACIR, *Significant Features of Fiscal Federalism*, 1978-79 ed., 1979

Taxpayers are accurate in their perception that state and local governments have shifted the way they spend money: from traditional programs that benefit almost the entire population--public schools, streets and highways, police and fire protection--to newer programs that are targeted on special population--welfare and health care for low-income groups, higher and other special forms of education. For example, the share of subnational spending going to local public education decreased between 1956 and 1976, even though the number of school children grew as a fraction of the population (U.S. Bureau of the Census, *Statistical Abstract*, 1978.) (The continuing decline in the school-age population began only at the end of this period; overall, the school-age population grew faster than the general population.) Compare school spending, then, with welfare, which grew far faster than average. In this period the number of persons who received Aid to Families with Dependent Children (a variety of welfare) grew from one to five percent of the population, and the real level of their benefits increased. Food stamps, Medicaid, subsidized housing, and other redistributive programs either began or were greatly expanded.

Compensation of Government Workers

Compensation comprises salaries and fringe benefits. In Fig. 8 a level of one indicates parity, that is, equality of compensation with the average for the private sector. These are very crude comparisons, ignoring skill differences between government and private workers, but also ignoring the superior job security in government. In any case, the trend is clear: State and local government compensation in this period reached parity with the private sector; federal civilian workers, who were at about 120 percent of parity now enjoy 143 percent of parity.

A Case Study of the City of Los Angeles

To investigate the roots of discontent with government in more detail, Rand conducted a case study of budgetary trends in the city of Los Angeles during the five fiscal years that preceded the passage of Prop. 13. (See Chaiken and Walker, 1979.) Some of the findings appear in Fig. 9.

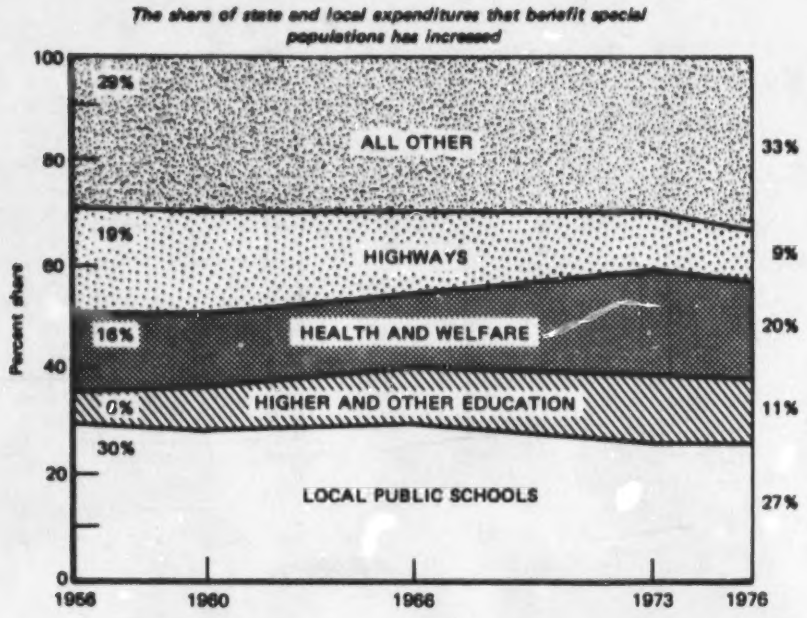

Fig. 7 — From ACIR, *Significant Features of Fiscal Federalism*, 1976 ed., 1976 and U.S. Bureau of the Census, *Governmental Finances*, annual

STATE AND LOCAL COMPENSATION HAS REACHED PARITY WITH THE PRIVATE SECTOR; FEDERAL COMPENSATION GREATLY EXCEEDS IT

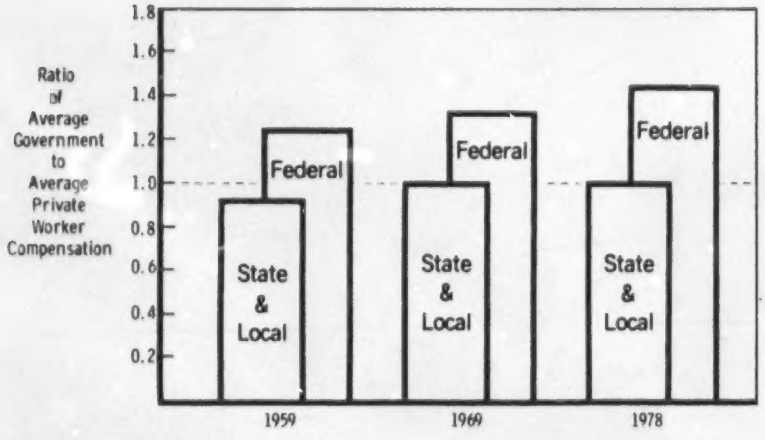

Fig. 8 — From U.S. Bureau of Economic Analysis, *The National Income and Product Accounts of the United States*, and *Survey of Current Business*, July 1979

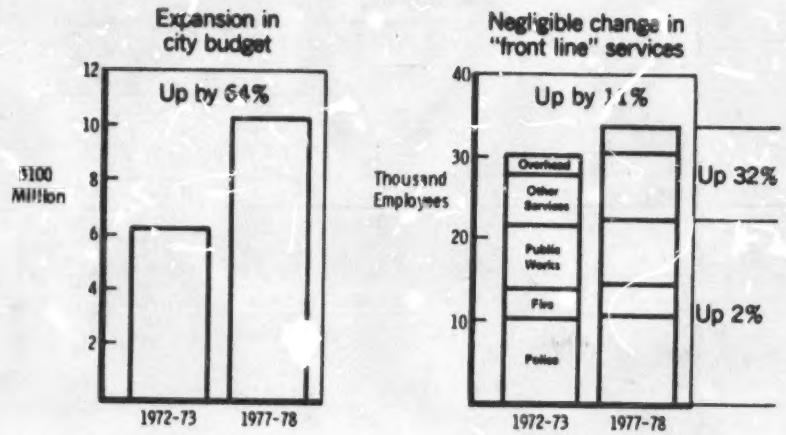

Fig. 9 — From Chaiken and Walker, *Growth in Municipal Expenditures: A Case Study of Los Angeles*, 1979

Although the city's population remained constant during this period, its budget increased 64 percent or by $402 million. City property tax collections grew 53 percent and threatened to skyrocket in the future; other revenues (especially state and federal transfers) grew even faster.

What did the taxpayers get for the additional taxes they paid? We call police, fire, and public works (the last mostly sanitation and street maintenance) the "front-line services." (Health, schools, and welfare are not city responsibilities.) Employment in the front-line services increased only 2 percent. Overall city employment rose 11 percent, but that was because other services--community development, the arts council, the recreation department--and the overhead functions--mayor, council, city attorney, city controller--grew by almost a third.

If budgets increased 64 percent and employment only 11 percent, where did the money go? Inflation was the major culprit. Los Angeles experienced price increases for given levels of employees and kinds of purchases (from paper clips to computer time) that about matched the rate of background inflation. Inflation in compensation and purchases together accounted for 76 percent of the extra $402 million the tax-

payers paid. The modest increase in employment and in additional purchases that Los Angeles made accounted for 18 percent. But 11 percent of the increase had a very different cause: It was the result of what we call "upward grade float." During this period, the number of administrative, planning, and support personnel in most agencies grew relative to police officers, firefighters, sanitation workers, and other direct service providers--and they tended to be higher paid than the direct service providers they supplanted. Taxpayers saw hardly any more front-line services or direct service providers, but a great many more administrators and planners. While the voters did not have this detailed information when they voted on Prop. 13, it would not be surprising if they felt they were paying more and more for a level of service that stayed visibly the same. Planners and administrators may well increase the efficiency of direct service providers, but any such gains are largely invisible to service consumers. The citizen sees the cop on the beat, not the police deployment specialist. Taxpayers in other parts of California, and indeed in other parts of the country, may have had similar reactions.

HOW FISCAL CONTAINMENT COMES ABOUT

The following are the most frequent forms of fiscal containment:

fiscal limitation laws
- Caps on growth of revenue or expenditure
- Indexing of individual income taxes
- Cutbacks in tax levies

- Voter rejection of spending proposals
- Election of more frugal officials
- Decline in the value of federal grants
- Flight from high-tax jurisdictions

The first three items constitute formal fiscal limits, while the rest are *de facto* means of fiscal containment. Half of all states now have fiscal limits of one kind or another, most of them rather recent (Table 1).[4] A total of 23 states enacted controls in the 1970s--all but 7 since 1975. Fiscal limits may constrain either states' or

localities' spending, or both. Only nine states limit state revenues or expenditures; statewide limitations on localities are far more common. Limitation measures can be statutes or state constitutional amendments. Many of the latter come about through voter initiatives, like Prop. 13. Although these laws often respond directly to public pressure, it appears that enactment of one tax-limiting measure does not necessarily immunize a state against what might be called fiscal limitation fever (Ellickson, 1979). For example, California's 1978 passage of Prop. 13 (the Jarvis-Gann initiative) was preceded by a less-known 1974 law limiting growth in property taxes. Proposition 13 in turn was followed by Prop. 4 (the Gann initiative, not shown on Table 1), a November 1979 cap law that constrains growth in both state and local spending. This June's ballot features Prop. 9 (dubbed "Jarvis II") which, if passed, will cut California's revenues from the individual income tax in half--a loss of about $5 billion annually.

Cap laws, limiting growth in revenues or expenditures, are a widespread form of fiscal limitation. They may permit only fixed percentage increases, or may tie them to changes in population, inflation, or personal income through fairly simple formulas. Also widespread is the indexing of progressive, individual income taxes so that inflation does not automatically raise collections faster than incomes by pushing taxpayers into higher brackets. Proposition 13 is an unusual fiscal limitation measure in that it was the first to *cut back* tax revenues, rather than simply limit future growth. In its first year it cut property tax collections by 57 percent, about $6 billion. California cushioned the impact by distributing the state's accumulated surplus (Lipson, 1980); but if Prop. 9 passes, it will not only be the first measure cutting back *state* government, but will also probably remove local governments' fiscal cushion which the surplus provided.

What kind of state adopts fiscal limits? An analysis of data to 1976 concluded that states with high tax levels, rapidly growing expenditures, and a history of fiscal controls were most likely to pass a new limitation measure (Ladd, 1978). The power of these explanatory variables seems, however, to have diminished in the last few years.

Half of all states now have fiscal limitation laws; 16 have adopted such laws since 1975

Table 1

STATES WITH GENERAL FISCAL LIMITATION LAWS

	Local Level					State Level				
		Affects:		Type			Affects:		Type	
State	Year	Prop. Tax	Other	Growth	Cutback	Year	Revenues	Expenditures	Fixed %	Variable[a]
Alaska	1976	x		x						
Arizona	1921	x		x		1978		x		x
California	1974,78	x		x	x					
Colorado	1965,71,76	x		x		1977		x	x	
Florida	1971	x		x						
Hawaii	1976	x		x		1978		x		x
Idaho	1978	x			x					
Indiana	1973	x		x						
Iowa	1976	x		x						
Kansas	1970	x		x						
Michigan	1978	x		x		1978	x			x
Minnesota	1971	x		x						
Montana	1974	x		x						
Nebraska	1978	x		x						
New Jersey	1976		x	x		1976		x		
New Mexico	1977	x		x						x
Oregon	1916	x		x						
Rhode Island						1977		x	x	
South Dakota	1978	x		x		1978	x			x
Tennessee						1978		x		x
Texas	1978	x		x		1978		x		x
Utah	1969	x		x						
Virginia	1975	x		x						
Washington	1973	x		x						
Wisconsin	1973	x		x						

SOURCE: May 1979 Rand Survey from Ellickson, *The Fiscal Limitation Movement: Present Context and Outlook*.

[a]As a function, for example, of growth in population, price level, or personal income; or subject to subsequent referendum.

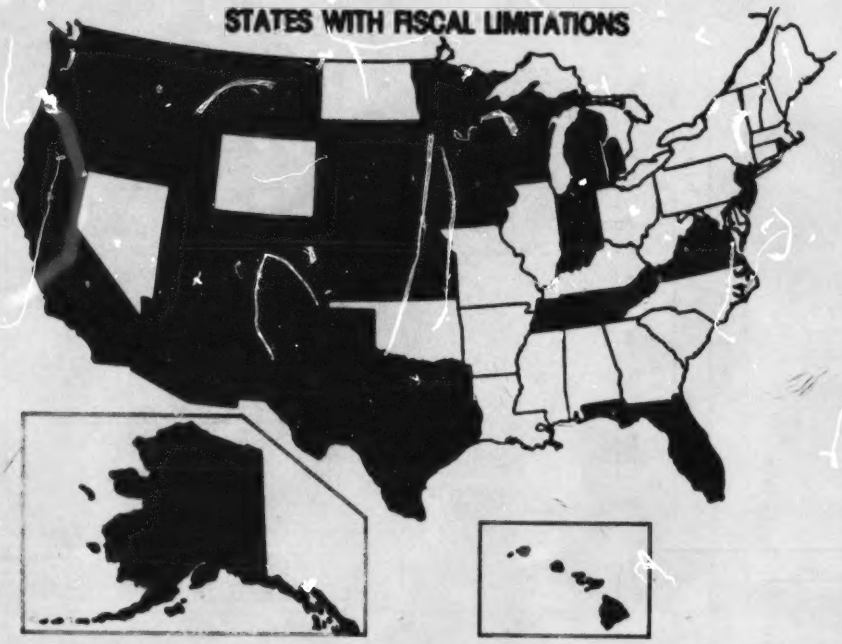

Fig. 10 — From Table 1

Each variable loses importance in explaining the adoption of controls when the period to 1979 is included (Pascal et al., 1979, pp. 73-76). Instead, an epidemic of tax limitation seems to have arisen from a general mood of disenchantment with government. The states shown in black in Fig. 10 confirm that fiscal limits are geographically widespread, though many are in the West. Limitation measures have been enacted in California, which is urban, and in Idaho, which is rural. (In fact, Idaho's measure has been called Prop. 13's "clone.") Low-tax states like Indiana have imposed limits; so have high-tax states like Alaska. There are fiscal limits in initiative states like Colorado, and in states like Tennessee where voter initiatives are not possible.

While not so visible as formal fiscal limitation, recent political and economic trends have brought about *de facto* fiscal containment. These will be mentioned quickly.

The public has been rejecting spending proposals. Before 1974, American voters approved 53 percent of all bond issues. Afterward the approval rate declined to 29 percent (ACIR, 1976).

Sketchy evidence suggests that many more fiscal conservatives have been winning office recently, at least at state and local levels. In California a crop of "Proposition 13 babies" won seats in the 1978 legislature (Boyarsky, 1979). A nationwide poll showed that, in the late 1970s, candidates for office were even more strongly antitax than the electorate (*New York Times*, 1978).

In the 1978-79 fiscal year, federal grants to states and localities increased by only $3 billion. In fiscal 1979-80, they are due to grow by only $1 billion on a base of about $80 billion (ACIR, 1979). Given the current double-digit inflation, such nominal increases actually entail substantial cuts in the real value of the grants. Meanwhile, localities have become increasingly dependent on state and federal largesse, as we have seen. General revenue sharing is probably the most popular federal grant program, especially for beleaguered cities, because it imposes virtually no requirements on recipients, in contrast to categorical grants. Ominously, general revenue sharing may well fall victim to President Carter's efforts to balance the budget.

Whatever the causes, the flight of households and businesses from the older Snowbelt cities into suburbs and the Sunbelt moves taxpayers from high- to low-tax jurisdictions. Suburban employment now exceeds that in central cities. Almost three-quarters of the cities with 200,000 or more residents in 1960 lost population by 1973; Buffalo, Cleveland, St. Louis, and Pittsburgh each lost at least a fifth of their population. The exodus consists disproportionately of middle- and high-income people; they leave behind them poorer people who have greater needs for public services that exert added strain on frequently declining property tax bases (Peterson, 1976). Nor do declining urban tax bases reduce other demands on municipal revenues: Accumulated pension obligations remain, and the physical plant (streets, sewers, and public buildings) must be maintained. Increasing locally levied

taxes and fees is a recourse that threatens further loss of jobs and residents; because it is rarely adopted, urban jurisdictions must become even more dependent on grants from higher levels of government. If those grants are not forthcoming, cutbacks must occur.

THE IMPLICATIONS OF FISCAL CONTAINMENT

Fiscal containment appears to be the wave of the future. But where might the undertows lie hidden? Possibly adverse consequences involve inequities in tax burdens and in the delivery of public services. Fiscal containment also may lead to changes in public employment and in the allocation of political power among levels of government and population groups. Thus far the immediate impacts have not been severe because fiscal limits are new or mild in many states, and California's surplus has cushioned the toughest limit of all. Consequently, many implications of the movement can be identified only speculatively for the time being. But not for long: Pressures are likely to mount. In California and elsewhere, surpluses will be spent; growth limits reached; opportunities for relatively painless new revenues exhausted; and the first, relatively noncontroversial spending cuts already made. What next?[5]

Changes in Revenue Systems

Many observers (see, e.g., Ladd et al., 1979) suggest that the tax revolt is spearheaded by a "harried middle class" that wants to move the tax system in the direction of regressivity. The middle class, it is reasoned, is tired of paying more and more taxes for services like welfare that offer them no tangible benefit. California provides some support for this hypothesis. Proposition 13 directly benefited homeowners and businesses, not renters. What is now called the "new view" of the property tax holds it to be among the most progressive of revenue sources (Aaron, 1975). Lessened dependence on property levies may therefore mark a shift towards regressivity. Statewide tax relief measures often limit only the property levy.

Another trend toward regressivity stems from governments'

increasing reliance on user fees, imposed for libraries, recreational facilities, land development, trash collection, and sometimes even fire protection (Pascal, 1980). A sharp rise in fees was an immediate consequence of Prop. 13 (Pascal et al., 1979, p. 87), but the nationwide growth in fees as a share of subnational, own-source revenues antedates recent fiscal limits (U.S. Bureau of the Census, *Governmental Finances*, 1977). Because user fees are typically designed to cover a service's full cost whatever the user's income, they have a regressive effect.

"Privatization" is the private provision of a previously public service. This occurs when a government simply stops providing a service (or makes it so inaccessible or of such low quality) so that citizens are driven to the private sector. Summer schooling in California has already been privatized; private summer schools (some of them nonprofit, but many not) have arisen to fill the gap. Privatization also occurs when a government franchises or contracts out for a service, either as a move to increase efficiency or as an unavoidable consequence of cuts in the public work force. The operators of franchises can, of course, raise fees to levels that local politicians could not justify. And the operations of private franchise holders and contractors are not subject to direct public scrutiny, as government agencies are.[6]

Cutbacks in Services

Because the disadvantaged are more dependent on government services than other citizens, even across-the-board cuts especially hurt them. Moreover, insofar as fiscal containment is driven by a middle-class tax revolt, we may expect disproportionately severe cutbacks in those redistributive functions that are targeted on disadvantaged groups and ethnic minorities and are the least popular with the middle range of voters. These functions are also the ones that the public perceives to be most wasteful and fraud-laden. California's first-year "bailout" law, which restored some local revenues that fell victim to Prop. 13, required that, of all services, only police and fire protection be maintained at prior levels (Lipson, 1980). This requirement was dropped

from later bailout legislation, but its supporters are currently proposing an initiative that would write a similar mandate into the state constitution.

Other factors that render particular agencies vulnerable to cutbacks also threaten human services for disadvantaged groups. The newer programs have not yet developed strong and vocal constituencies; it can be argued that the last-instituted activity is the least urgent--otherwise, it would have been instituted earlier. The very fact that many services for the disadvantaged, ethnic-oriented services, community development activities, and innovative programs for children are not traditional functions of state or (especially) local government puts them at particular risk. Programs with a poorly organized clientele--perhaps because the programs are new, perhaps because their clients are impoverished or demoralized--may also suffer. Where clients lack well-organized employee groups to team up with, their services are even more vulnerable. Most police and teacher organizations, for instance, are much more powerful at both the local and state levels than employees who work in libraries and human service agencies.[7]

Arbitrary Reductions in Public Employment

Politicians often try to avoid making deliberate cuts in services even in accordance with public priorities or to achieve efficiencies. It is very difficult to fire public employees because many of them are well organized. They finance campaigns and help get out the vote. A more usual practice, consequently, is to impose freezes on hiring and cost-of-living increases. Attrition is the result. In California, the first year of Prop. 13 led to an 8 percent decline in the public workforce but very few firings (Pascal et al., 1979, p. 94). Freeze strategies can have perverse and arbitrary effects, however, simply as a result of different age and skill distributions in the workforces of the various agencies. Libraries, for example, tend to have a senior workforce. Under a freeze strategy, libraries will contract relative to other services simply because they cannot replace people who retire. Another example is a district attorney's office where young lawyers, foreseeing bad prospects for pay and promotion, may

leave for greener fields in private employment. The net result will be that the accidents of program history, instead of economic efficiency or social priority, will dictate the relative sizes of government programs. Moreover, freezes in compensation most hurt those who have dedicated themselves to a career of public service.

Fewer Public Career Opportunities for Minority Workers

Whether layoffs or freezes are adopted, it seems that minorities are particularly at risk. Because they tend to have the least seniority, civil service regulations and union agreements mean they will be the first fired. For example, New York City reduced its workforce by 13 percent in the early stages of its fiscal crisis. In this process, fully "half the city's Spanish-speaking workers lost their jobs, as did 40 percent of the black males" (Peterson, 1976, p. 114). But even with a freeze strategy, limits on opportunities for advancement may especially hurt incoming cohorts of young minority workers. The outworn stereotype of the Irish cop hides a deep truth: Government employment has traditionally been minorities' stepping stone into the middle class (Dahl, 1961, pp. 36-42). In recent years, black employment in the public sector has been growing much faster than in the private.[8] In most larger cities, government employs twice the fraction of minority workers as the general economy (Erie and Brown, 1979, pp. 20,22). In the entire Baltimore metropolitan area, for example, half of all black professionals and managers work for the Baltimore city schools alone (Pascal et al., 1979, p. 95). In 1975, almost one-third of all skilled black construction workers in the United States were employed to build the Washington, D. C. subway system (ibid.). A reduction in public-sector career opportunities could have deleterious long-run effects on social mobility, particularly from one generation to the next. A leaner and smaller public sector may also be meaner and harsher.

Loss of Local Control

Although fiscal and ideological conservatives generally support tax limits, one likely consequence of limitation may displease them

(Hagman, 1978). In the late 1970s, government growth has slowed more often at the local level (where most of the limits have been imposed) than at state or federal levels (Pascal et al., 1979, p. 10). Until tax moderation cuts deeply into state and federal budgets, localities may become increasingly dependent on support from higher levels of government, which threatens a loss of local control. Though localities are often very skillful at avoiding intergovernmental requirements (see, e.g., Derthick, 1970), this money may well come with strings attached--the case of the first-year bailout in California, for example.

Increased reliance on intergovernmental transfers violates another principle of conservative ideology: that the same citizenry that demands a public service not only tax itself to pay for that service but control its administration. "Free" money from higher levels of government not only breaks the visible link between taxing and spending, but also brings unwelcome restrictions that are inappropriate to local goals and forms of government.

Lobbyists go where the money and power are. In New Jersey, public employee associations are trying to persuade the legislature to exempt collective bargaining agreements from the cap law limiting local spending--localities' hands are tied. In California as well, various interest groups which used to operate only at the local level have either approached the legislature or may take the initiative route. Such lobbying (e.g., to protect police budgets) is not always appreciated by its intended beneficiaries. The chief of a hard-hit police department told us that he would rather suffer a locally imposed cut than receive money and take orders from Sacramento.[9]

Lobbying for the disadvantaged and ethnic minorities has traditionally been strongest in big cities and in Washington, not state capitals (Fainstein and Fainstein, 1974). Urban interests have been better supported by Congress than by state legislatures, which are often rural-dominated. But states, as a general rule, are currently the best-heeled level of government. Not only has moderation of taxing and spending been milder for states than localities, but many states also have surplus funds. At the end of 1978, 13 states'

surpluses exceeded 20 percent of that year's expenditures (National Governors' Association, 1979).[10]

Other possible implications of fiscal containment are more speculative and longer-term. They derive from underlying political forces and from those political and administrative processes by which straitened budgets are set and by which attempts are made to improve programs' efficiency and effectiveness.

Increased Targeting

When funds decrease (at least in real terms) but the demands for services do not, an obvious accommodation is to limit the clientele, that is, to impose or increase requirements for targeting. A targeting "fix" is especially appealing for specialized, relatively expensive programs directed toward the disadvantaged, ethnic minorities, and children. Income-based targeting, of course, benefits the neediest and can mitigate the regressive effects of privatization and user charges.[11]

For all its advantages, increased targeting does carry two important disadvantages. It can incur the enmity of the near-poor, the lower middle class, or indeed of any group that formerly received the benefit, especially if the former clients cannot afford the benefit on their own. In many states, opposition to Medicaid ensues from the fact that it provides extensive medical benefits that are not always available to members of the lower middle class, whose members frequently carry only hospital insurance. Second, targeting can stigmatize the program and its beneficiaries. Universalistic programs--such as Social Security--often seem to escape the criticism (and charges of waste or fraud) which is directed against programs that most citizens have little personal contact with. Personal contact raises citizens' opinions of programs. Extensive survey evidence, for example, attests that while most Americans distrust politicians, they trust their own representatives; while they believe that the postal service is incompetent, they believe that their own letter carrier is doing a good job (Citrin, 1978).

Volunteers

Using volunteers to extend the efforts of paid workers (or to sustain activities that otherwise must be terminated) is a two-edged sword. Volunteers *can* be used effectively, as is shown by many childrens' services. They can also contribute to community-based or ethnic-oriented programs that supplement basic education, library, or recreational services. However, volunteerism is strongly opposed by the agencies affected, by civil servants' groups, and by the women's movement. They have good reason. The very possibility of volunteer assistance threatens school, library, and recreational jobs and budgets. Volunteerism tends to reduce the public's perception of professionalism in public employment. Moreover, volunteers often are poorly regarded, unlike paid workers. Nevertheless, some volunteer assistance may be preferable to otherwise decimated staffs, and many of the negative consequences can be mitigated. Under the proper circumstances, unpaid public service can be highly regarded. Volunteer fire departments are the classic example, but even big cities have programs to accommodate the many citizens who want to assist firefighters. And with recognition and increasing male participation, the opposition of some women's groups may decrease. After all, Robert Redford boasts of his being a rural sewage commissioner. Faced with the deterioration of neighborhood parks, an Oakland community group is encouraging residents to "adopt" their park and supplement paid maintenance.

Consolidation of Facilities and Services

Consolidating community facilities (both within and across jurisdictions) can cut costs. Camden, New Jersey has eliminated neighborhood police stations; it also uses the county fire department to dispatch city fire trucks. A New Jersey statute eases interlocal cooperation. Townships there can share clerks or tax assessors, and the Camden public library has a reciprocal agreement with nearby suburban libraries.

Though it is spoken of as an efficiency-increasing move, consolidation can affect equity. A community can lose its control over a service or facility; this is especially a problem when a poor city transfers a service to a richer suburban-dominated county. And of

course no neighborhood likes losing "its" school, park, or library. When explicit criteria are used (or at least invoked) to close a particular facility, their details may have implications for equity. The criterion of library usage, for example, discriminates against branches in poor neighborhoods or those in ethnic neighborhoods where the cultural content of library holdings has not kept pace with a changed community. Children and the poor are less mobile than others and therefore more dependent on nearby facilities. Vandalism and street crime can raise costs at inner-city facilities while they reduce use. Indeed, allowing a park's quality of upkeep and level of staffing to deteriorate can initiate a downward spiral; such a decision can be a self-fulfilling prophecy.[12]

Removal of Intergovernmental Regulations

Many public officials have admitted to us that fiscal containment provides an excellent excuse to do what they wanted to do anyway. More and more officials criticize unfunded mandates and grant programs that impose costly and burdensome requirements on governments that can ill afford them. There is growing support for eliminating many of these intergovernmental regulations or at least for making higher-level governments financially liable for the cost of their mandates (Posner and Sorett, 1978). Growing fiscal pressures can only accelerate the lobbying for such proposals.

Though intergovernmental regulations and their fiscal impacts should certainly be rationalized, we want to add a note of caution. Many intergovernmental regulations were intended to safeguard the interests of local minorities (which are frequently small and unorganized) against bureaucracies that, all too often, are unresponsive to them. Public participation, nonsupplantation, and maintenance of effort requirements may be expensive, hard to define, and harder to enforce, but their promulgation can serve a useful purpose. Because these requirements provide the basis for legal action (or its threat), they can help protect otherwise vulnerable programs. Our interviews suggest that those federal programs mandating citizen participation tend to develop informed and articulate advocates, and so fare

relatively well when the city council has to cut the budget. (See also Hill, 1979).

Stability in Program Finance

In the midst of identifying potentially adverse implications of fiscal containment, we hasten to mention one that is possibly beneficial. In the long run, fiscal containment may stabilize the financing of human services. Forced neither to implement complex, untried programs nor to suffer crippling cutbacks, program administrators can concentrate on steadily improving their "product" and the public's perception of it.[13] This is an opportunity they essentially never had. Although New York City schools suffered substantial cuts in staff and real funding during the late 1970s, preliminary findings suggest an *improvement* in educational quality, nonetheless (Horton and Brecher, 1980).

In the context of all local public services, program administrators and the public have had the least experience with human services. The public provision of those services rarely dates back further than the New Deal. Human service programs, particularly those initiated or expanded in the 1960s, often were hastily conceived, excessively complex, poorly funded, and clumsily implemented. Added to these deficiencies is that, within the memory of most voters, human services programs were oversold to them. Moreover, even at their most successful, these programs cannot show the tangible, visible achievement of filling a pothole or fighting a fire. Despite criticism, there is little evidence that the public wants to repeal the New Deal (Cannon, 1978), but it does want program improvement and needs to become familiar with agencies that simply write checks rather than fill potholes. Coupled with stable funding, an end to explosive growth offers breathing space. It offers the opportunity to rethink means and ends, to prune some programs, and to support improvements in others.

Questioned Effectiveness and Legitimacy of Government Institutions

The fiscal containment movement will not only trim government, but will also alter government's role in the economy and society. The broad public opinion that supports containment questions the efficiency

of "free," nonmarket service provision (hence fees and privatization; Pascal, 1980). This movement questions the effectiveness of many programs that have sought to ease the harshness and inequity of the marketplace. But even more fundamental doubts have arisen, doubts as to the very legitimacy of governmental institutions and activities, especially those redistributing income. (Such concerns date back to the *Federalist* papers; Pascal et al., 1979, p. 3. Rose, 1979, excellently reviews and interprets the recent literature, emphasizing issues common to the Western World.)

It is all too easy to forget that government is not just a provider of services, competing with the private sector, and a redistributor of incomes. An older philosophy is that government offers leadership; by a variety of means it proposes, validates, and achieves societal goals. American public institutions have always sought freedom, prosperity, security, equity, and opportunity, just as Americans have always debated what these goals are and how they may be achieved. For example, underlying the debate about educational vouchers are questions not merely of service provision, but of institutional responsiveness and whether the "publicness"--the commonality--of public education is somehow important.[14] The future of the fiscal containment movement will not only pit the public and private sectors against each other, but also will debate the means and ends of government action.

In sum, disgruntled taxpayers have delivered a message to government. The fiscal containment movement will affect the future size and shape of the public sector. The movement seems to be a reaction to the preferences of the broad, middle range of American taxpayers. The middle class may benefit from fiscal constraints that threaten disadvantaged groups, lacking wealth or numbers, who do not organize. In responding to the public mood, policymakers should avoid unreflective zeal. They should be aware that they may sacrifice equity and local control in the quest for frugality and efficiency in government.

FOOTNOTES

1. This paper is slightly revised from one presented at the Ford Foundation Conference on the Politics of Equity: Educational Finance, State-Local Taxes, and Children's Services, San Antonio, May 1980. The paper draws on a Rand report (R-2494/FF/RC) that was sponsored by The Ford Foundation and The Rand Corporation: *Fiscal Containment of Local and State Government*, by Anthony H. Pascal, Mark David Menchik, Jan M. Chaiken, Phyllis L. Ellickson, Warren E. Walker, Dennis N. DeTray, and Arthur E. Wise. The assistance of Will Harriss and Mary E. Taylor is gratefully acknowledged.

2. Figures 1 and 2 show spending after intergovernmental transfers, which essentially move downward: from the federal level to state and local levels, and from states to localities. Graphing tax collections would show an even greater predominance of the federal government and the attenuated role of local levies.

3. Of course, the relative importance of individual revenue sources differs across jurisdictions. Own-source taxes obviously differ from state to state, but even transfers vary. To take the extremes, New Mexico localities are more than twice as reliant on grants as those in New Hampshire. Of all types of localities, school districts are most dependent on federal and state grants, which were about half of total revenues in 1977 (Pascal et al., 1977, pp. 18-20). Large cities' revenues (population over 500,000) are 46 percent grants, while small cities (less than 100,000) draw only 33 percent from intergovernmental transfers.

4. Property tax *rate* limits have a venerable history. Controlling tax *levies* is newer. See Ellickson (1979).

5. Of course, the previously mentioned positive effects of fiscal containment (e.g., stimulation of the private economy) may mitigate or even reverse some of the negative impacts on equity that we hypothesize. A rising tide lifts all boats.

6. The quantitative effect of changed revenue sources is the subject of current Rand research.

7. Again, current research focuses on this topic.

8. Consequently, privatization bodes ill for minority employment. Private employers, even if they hold government franchises or contracts, may not make up for the loss of public career opportunities.

9. Referring to the chance that, to keep the local museum open, the city council might cut the police budget further, he said he would accept their decision even if the public would then "have to shoot their way in and out of the museum."

10. Federal aid formulas have justly been criticized for their complexity, but the simplicity of many state aid formulas and statewide fiscal limits raises another set of problems. The simple use of current population hurts declining cities. The use of personal income makes business cycles more extreme rather than being counter-cyclical. This problem also occurs when formulas use the level of most states' revenues, the case with the formula for the California bailout. Recessions decrease both personal income and state revenues (which are usually income-elastic), while they *increase* the need for unemployment insurance, welfare, and other income transfers (Lyon et al., 1976, Pascal et al., 1979, p. 17).

11. Whether decided upon explicitly or not, targeting can also be spatial, as when a popular neighborhood program is saved.

12. We have benefited from discussions on this topic with Elliott A. Medrich and Victor Rubin.

13. Even though many fiscal limits make future financing uncertain, this is not true of all laws and states. Kansas's cap law, passed in 1970 and amended in 1973, has been effective (it halved the growth rate of property taxes) but seems not to have aroused the financial anxiety associated with Proposition 13. Florida's 1971 "full disclosure" law seems to have stemmed public pressure for limitation although it is a modest measure, requiring only the disclosure of expected revenue increases. (See, generally, ACIR, 1977b and Ellickson, 1979.) Experience may increasingly teach both legislators and voters how they can attain fiscal limitation without financial chaos. (See also note 14, which cites the emerging "death of growth" literature.)

14. Hirschman's seminal work (1970) compares the responsiveness of private and public institutions. See also Boulding (1975) and Levine (1978).

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